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CENTRAL WAREHOUSING...IS IT THE ANSWER FOR MULTIBRANCH DISTRIBUTORS?

FOODSERVICE: A LONG-TERM GROWTH AREA

PAPER MERCHANTS AND THE FAST FOOD RESTAURANT

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COVER PHOTO: RICHARD CHESNUT

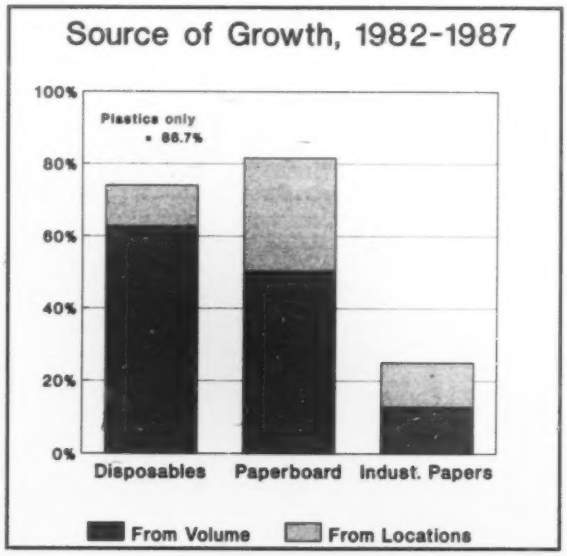
FOODSERVICE: A LONG-TERM GROWTH AREA

Will Paper Merchants continue their growth in this market?

By George Cain
Director of Research,
National Paper Trade Association, inc.

Foodservice products provided the fastest single growth area for industrial paper merchants during the 1980s. The current economic downturn has slowed the growth of foodservice product sales (as well as other industrial product sales). When the downturn ends, though, foodservice products should provide potential for growth in the 1990s as they did during the 1980s.

Foodservice business has grown as the United States has shifted its economy towards service businesses and changed its dining patterns. The population is more dependent on eating out, there is increased use of custom prepared foods, and non-family congregate dining settings, such as retirement residences, are much more common. Excluding economic downturns, these changes in the economy are likely to continue during the 1990s and will produce continued growth in foodservice product usage.



This article focuses on characteristics of the growth of paper merchant foodservice product sales during the 1980s, and is based on statistics used in NPTA's new *Paper Distribution DataSource* book and the composite results of NPTA members' use of a free annual operating survey called PAR (for Performance Analysis Report). Foodservice specialists' PAR results indicate future sales increases and profitability may depend on use of new technologies such as EDI and bar coding.

FOODSERVICE FAST GROWTH

Foodservice disposable and related items showed the highest growth rate from the 1982 to the 1987 operations). Census data are probably the most dramatic, as shown in the graph (this page). The census includes five subcategories of industrial "paper" products. Two of these, disposable plastics and disposable paper products such as paper plates, include the majority of foodservice disposable products.

Disposable plastics had the single highest 1982-1987 increase at 86.7%; even combined with a drop in disposable paper products, the primary foodservice product areas had a composite increase of 74.0%. Perhaps more important, most of this increase was from increases in volume rather than increases in the number of sales locations. On the other hand, paperboard and boxboard had a higher 1982-1987 growth rate, but over a third of the growth came from increasing sales locations rather than sales volume. For this analysis, increases from sales locations were based on 1982 sales per location figures for the 1987 number of sales locations, and volume increases were what remained.

NPTA's composite PAR statistics show these higher increases continuing through 1989, with foodservice specialists with the highest sales increases for 1987, 1988, and 1989 (1990 foodservice specialist sales changes are not yet available). For example, in 1989 when one out of six industrial PAR filings was for foodservice specialist sales, the median sales change for foodservice specialists was 12.7%, compared to the overall industrial merchant median of 9.2%. Most of the following discussion emphasizes median performance (half the firms scored higher, half scored lower). Some measures listed or summarized also reflect values for lower quartiles (one fourth of the firms had lower scores) or upper quartiles (one quarter of the firms had higher scores).

OTHER FOODSERVICE FIRM CHARACTERISTICS

In 1990 (for 1989 operations), the average size of filing foodservice specialists was similar to the average size of all filing industrial merchants. However, performance on a number of measures was noticeably different, including performance on the core pre-tax profit model ratios of profit to sales, profit to total assets and profit to net worth.

Foodservice specialists had a lower median profit-to-sales figure than the

total industrial merchant group, and poorer quartile performance. Their ROTA performance was similarly lower than for the total industrial group. Their RONW performance, however, was considerably higher for the median and upper quartile groups.

This higher RONW performance reflects higher leveraging of assets. One ideal source would have been from higher inventory turns, but this was not the case for foodservice specialists. Two others could have been from handling of receiveables and earnings from discounts for prompt payment, but neither was the case for 1989. Foodservice leveraging in 1989 was basically from higher use of debt.

	LQ	Median	UQ
Profit To Sales			
All Industrial	.67	1.86	3.46
Foodservice	.39	1.66	2.56
Profit To Assets			
All Industrial	2.13	7.41	13.77
Foodservice	1.14	7.27	10.65
Profit To Net Worth			
All Industrial	5.83	16.81	29.88
Foodservice	5.75	22.33	63.07

LQ - Lower Quartile
UQ - Upper Quartile

Performance on gross margin and average order size measures was mixed. The median average direct order size for foodservice specialists was twice that of either full-line merchants or industrial manufacturing specialists, and the upper-quartile direct order size was almost three times larger. Median and upper quartile foodservice direct gross margins were lower (logically), but not as much lower as might be expected with the dramatic differences in direct order size. Combined warehouse and indirect sales order size finds foodservice specialists well ahead of full-line merchants but trailing industrial packaging specialists. Combined warehouse and indirect margin measures show foodservice specialists slightly behind both other subgroups of industrial merchants.

Sales department performance of foodservice specialists surpassed the general industrial performance on almost every measure. Sales and gross profit per sales department employee was higher, and sales department expenses consumed less of the gross profit.

Performance on expense control measures aside from the sales department shows a much less favorable picture. Administrative and office expenses as a percent of gross margin are slightly worse than the other industrial groups, but it is in warehouse and delivery where the foodservice specialists really differ from other merchants. Storage expenses (nonpersonnel warehouse costs) consumed the highest percentage of gross margin, as did the combination of warehouse and delivery expenses. Realistically, this likely reflects the lighter weight of foodservice items and a basic characteristic of foodservice product selling.

One way to attack these expense areas would be to dramatically increase warehouse turns; another would be to develop such high levels of automation in the warehouse or delivery areas that personnel costs could somehow be dramatically reduced. The merchant who can actually do any one of these should be happy, and the merchant who could accomplish both should patent the method, as that merchant's firm could afford to grow vigorously and dramatically expand its market share. EDI (electronic data interchange) and bar coding are probably the only real sources of such dramatic changes, and these have been slow in coming to the paper distribution system.

Summary

Foodservice business is a specialty business within the overall industrial paper merchant arena. Sales increases have consistently been higher than other industrial paper product groups, and offer continuing possibilities of high sales increases for the 1990s. Profitability on foodservice products seems to have depended on leveraging of borrowed money. Asset management techniques could help increase profitability through improved handling of receivables and/or improving the return available from quick payment discounts.

Dramatic improvements in profitability, however, could require breakthroughs in the areas of inventory turns or automation of warehouse and delivery functions. The combination of EDI (electronic data interchange) and bar coding probably offers the possibility of such dramatic changes.

Paper Distribution DataSource

The Commerce Department statistics used for this article are based on 1987 and earlier Wholesale Census studies. These studies were a primary source for a new NPTA publication, *Paper Distribution DataSource*, Market Research for the Paper and Plastics Industry. This 200+ page book, providing data about both industrial and printing paper merchants, was designed to recap, analyze, and make useful the most relevant parts of the volumes of statistics contained in the census studies. For further discussion of such areas as industrial merchant growth and grocery wholesalers, contact NPTA and purchase a copy of the new publication, *Paper Distribution DataSource.*

PAR (Performance Analysis Report)

NPTA statistics are based on industry summary data from foodservice specialist paper merchant firms' use of NPTA's free annual operating survey, the PAR, short for Performance Analysis Report. Foodservice specialist firms' data isolates some characteristics of successful foodservice marketing, whether done in specialist firms or in "full-line" firms (firms that sell all categories of industrial paper products). Member foodservice firms that use PAR receive more information than could be included in this article, and full-line industrial firms that use PAR also receive summaries of the performance of all filing industrial specialist groups. For further information about PAR or for help in filing for PAR, contact NPTA's research department; telephone (516) 829-3070. MN

PAPER MERCHANTS AND THE FAST FOOD RESTAURANT

Measurable, consistent delivery of service is the key factor in determining who gets the business at fast food restaurants. Total Customer Satisfaction should be the goal of every Paper Merchant.

by Denis F. Healy,
president,
Healy & Associates

In the 1990s, fast food restaurants will demand even higher levels of service than they receive today. As someone once noted, "There's almost an insatiable appetite for service. Nobody ever says you have given me all the service I want. " Everyone in the channel of distribution is seeking ways to squeeze time and cost out of their operations and trading relationships. At the same time, they are aggressively trying to: **(1)** devise value-adding products and services; **(2)** segment markets more effectively, and **(3)** secure strategic alliances with channel partners.

It is impossible to isolate service and quality issues from any aspect of a transaction, from initial contact to followup. Today and into the future, service and quality expectations will become more encompassing and more stringent as accounts seek to optimize their sourcing relationships and as competitive forces come into play. This is particularly apparent in the fast food restaurant sector, where Paper Merchants are continually challenged by aggressive Foodservice Distributors who offer "one-stop shopping," and specialized Cleaning and Maintenance Supplies Distributors who provide a range of support services and products.

This article contains a summary of what independent fast food restaurant decision makers believe is important in their selection of a source of food service disposables and cleaning and maintenance supplies.

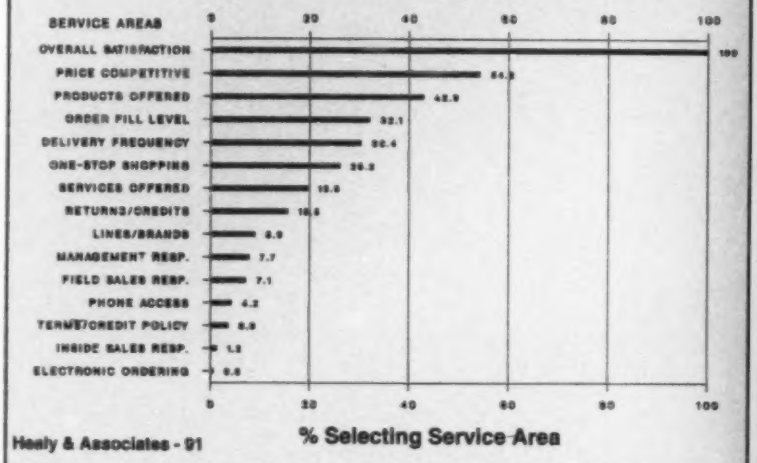
There are two dimensions to the notion of service. The combination of importance scores and performance ratings map out the "Service Dimensions." One dimension of service deals with what is important to fast food restaurant accounts—their "decision criteria." And the other is the performance of each type of source, (Paper Merchant, Foodservice Distributor, or Cleaning and Maintenance Supplies Distributor), compared to the other sources being used. Perceptions of a source as the high-quality provider result when the company receives high service performance ratings, especially on the elements which are most important to the customer.

In the NPTA National Study, "Perceptions of Fast Food Restaurant Decision Makers," both dimensions of service were measured. As a result, we were able to determine how Paper Merchants performed in relation to Foodservice Distributors and Cleaning and Maintenance Supplies Distributors. By linking the importance ratings reported here, with the performance scores, (as presented in the NPTA report), a clear picture emerges of those areas requiring corrective action and those which are areas of service excellence and competitive advantage.

The specific performance areas fast food restaurant buying influences were asked to rate are as follows: Range of Products Offered, Provides One-Stop Shopping, Delivery Frequency, Attention to Customer Service, Ability to Order Electronically (EDI), Terms and Credit Policies, Responsiveness of Field Sales, Lines (Brands) Offered, Handling of Returns and Credits, Competitiveness of Prices, Ability to fill Orders Completely, Ease of Access by Phone, Responsiveness of Inside Sales, Responsiveness of Management, Overall Responsiveness to Customer.

The Importance Dimension: As buyers, we all have a set of criteria and expectations which are used to judge suppliers. Some of these criteria are more important than others. The preferred source is the one that receives the

Figure 1. NPTA Fast Food Restaraunt Perceptions
Importance of Service Areas • To Fast Food Decision Makers



highest ratings, particularly on the most important criteria. Should several sources be rated equally on the "important" criteria, the one whose performance or reputation is more favorable on the "less important" performance areas, is likely to get a larger share of the available business.

The overall importance of each performance area is shown in Figure 1. Those performance areas receiving the largest percentage of responses have been defined here as the most important in a comparative sense. Overall satisfaction, then, is an expectation of 100% of the respondents. As can be seen by reference to Figure 1, 54.2% of the respondents said "Price Competitiveness" is important and 42.9% rated "Products Offered" as important.

The five areas most frequently cited by respondents as the "most important" to them in selecting and using a source are:

- Price competitiveness.
- Delivery frequency.
- Products offered.
- One-stop shopping.
- Order fill.

The Importance of Personal Responsiveness: One of the most important, and yet underrated service elements concerns sales and service personnel, as is evident in **Figure 1**. Customers tend to take sales and service people for granted. In some instances, customers do not even know what services these personnel provide or coordinate on their behalf.

Thus, although the ratings reported here may suggest that nonpersonal service areas are more important than human responsiveness, that is not the case at all. People still are, and will remain, the key ingredient in effective service strategies. Systems and automation provide the support and speed that complement and enhance human responsiveness, but for many areas of the business, human contact is critical.

One of the major marketing challenges to be tackled in building a service strategy for fast food restaurants is to educate the customer about the services available and to stress the benefits derived from dealing with motivated and customer sensitive sales and service personnel. Customers need to be reminded that it is the combination of capable, customer-oriented people and responsive systems that creates and delivers the services that customers value.

The fundamental questions to be addressed are, "What is the most customer satisfying sales and service team?" and "What must be done in terms of systems, organization and personnel to dramatically increase Paper Merchants' sales/service effectiveness with independent fast food restaurant accounts?"

Doing It All For Them

There is no question that measurable, consistent service delivery is the deciding point in determining who gets the business at fast food restaurant accounts. Today, the goal of every Paper Merchant is, or should be, to deliver Total Customer Satisfaction (TCS)—at a profit.

There are substantial opportunities for those who can deliver Total Customer Satisfaction to fast food restaurant accounts—and equally large threats for those who fail to respond. Being on the outside of a business relationship will become increasingly difficult to remedy as these working partnerships become objectively defined, measured, and rewarded, based on service performance. These new linkages or Strategic Service Partnerships are likely to be far stronger and more enduring than anything in the past. This is evident in those situations where Foodservice Distributors smother their accounts with service.

Organized Around Delivering TCS

The service-oriented Paper Merchant is organized around delivering TCS and more specifically around the "moments of truth" that occur as the customer moves from point of initial contact to use of the products and services of the company. Leadership and organization have much to do with the way in which people and systems are linked together; and with the flow of information, not only within the company but between the organization, its customers and its suppliers.

There are four basic ways paper Merchants can improve the working relationship with fast food restaurant accounts; namely, through helping them achieve the following:

- Save time.
- Eliminate unnecessary tasks.
- Cut costs/increase profits.
- Provide information.

Those Paper Merchants who can sense and respond to these increasing service demands will be given abundant opportunities to demonstrate their capabilities. At the same time, they will be challenged to do so at the lowest possible cost. Achieving a position of high service without striving to have the lowest operating costs is pointless, as is the reverse situation.

Not only is it important to anticipate and respond to customer expectations; also one must do so in such a way as to be differentiated from competition. Competitive advantage comes from offering more and/or doing it for less; i.e., leveraging the service offering. Clearly, the real winners then, are those who are able to identify and serve market niches extraordinarily well—in highly efficient ways.

To effectively serve the independent fast food restaurant, PMs must carefully evaluate their position in the specific markets they serve. Recognizing that the FSD enjoys a strong position in many market areas, particular attention should be given to the following:

- Identification of the decision makers and buying influences in each target account.
- Determination of account perceptions of the service performance of the principal sources of Foodservice disposables and cleaning and maintenance supplies.
- Targeting of service development activities on providing timely delivery, "one-stop" shopping.
- Concentration on those accounts using CMDs and those using multiple sources.

The old saying "Don't waste time and money trying to fix something that isn't broken" makes good sense, as does the other side of the argument, which is "Find out what needs fixing and make it right." MN

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SPECIAL SECTION

The Envelope Industry In the 1990s

Despite a cautious beginning, the outlook for the envelope industry in the mid to late 1990s is optimistic.

The envelope industry began the 1990s cautiously. Weak margins experienced by manufacturers of envelopes in the latter part of the 1980s declined even more with the 1990-1991 recession, ever-widening production base of high-speed efficient machines, competitive communication media, and the 1991 postal rate increase. Consequently, a normal process of the "weeding out" of marginal producers in times of economic change began again.

However, the outlook for the envelope industry in the mid to late 1990s is optimistic. As the economy grows out of the recession and the direct mail industry takes advantage of the work sharing discounts offered by the Postal Service, envelope sales are expected to grow about 4% annually.

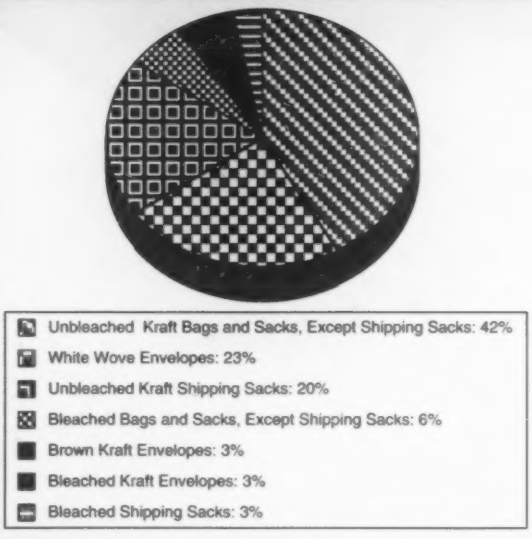
Some of the changes that are foreseen for the envelope industry in the 1990s are:

- A smaller number of envelope companies as marginal producers are closed or merged.
- Companies will tend to be either large integrated ones or small specialty product concerns that manufacture short run, high-value-added products.
- Traditional resale companies may turn more to the direct marketplace as the overall demand growth slows and as the custom product lines normally handled by resale companies lose their market value.
- Even more emphasis will be placed on envelope sales staff to be specialists in postal automation regulations to help customers save postage on their mailings.
- Envelope manufacturers will continue to take a major role in meeting customer and environmental demands for recycled envelope products.

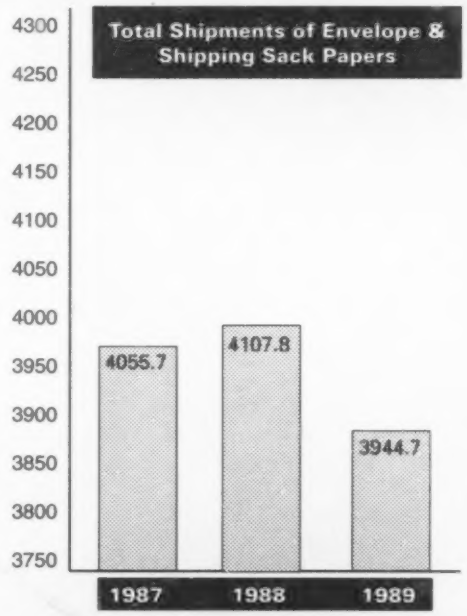
The envelope industry, valued at $3.2 billion in 1990, is a relatively small one but one whose product is a reminder of continued strength and stability. Though there have certainly been many wonderful innovations in business communications, the envelope has withstood the test of time.

Based on an article by Maynard H. Benjamin, CAE, executive vice president, Envelope Manufacturers Association of America.

Total Shipments of Envelope & Shipping Sack Papers: 1989


Unbleached Kraft Bags and Sacks, Except Shipping Sacks: 42%
White Wove Envelopes: 23%
Unbleached Kraft Shipping Sacks: 20%
Bleached Bags and Sacks, Except Shipping Sacks: 6%
Brown Kraft Envelopes: 3%
Bleached Kraft Envelopes: 3%
Bleached Shipping Sacks: 3%

Source: American Paper Institute



Source: American Paper Institute

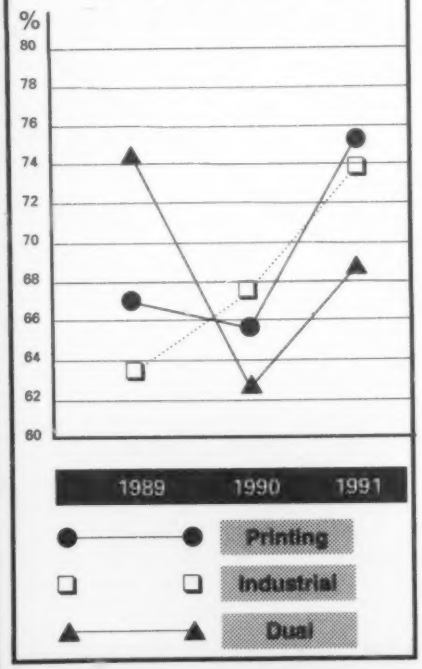
All Indicators Up On *MN* 'Joy of Working' Scales

After a serious decline last year, mostly evidenced by those working at dual houses, this year's report is a lot more encouraging— especially among employees of industrial paper and plastics houses.

By William H. Frohlich, Publisher

The paper, plastics, and allied products distributor industry has shown its strength even more so this year in *MN*'s annual "Joy of Working" survey. Respondents made it clear that they like working in this business. Is this news to anyone? No, but there are some interesting changes taking place within the various groups surveyed.

Graph 1
Joy of Working (All factors)
(% giving positive responses)



Record Participation

This year, 324 usable responses were received from printing paper, industrial, and dual distributors who read NPTA *Management News*. This is up 14% over last year. The survey was mailed at random to 1,100 readers in April this year, yielding a hefty 30% response rate.

Of those responding, approximately half worked for dual houses, a quarter in printing paper distribution firms and a quarter in industrial. Upper and middle management represented 55% of the responses, 37% were in sales, and 8% in support personnel. A total of 42% worked for companies with fewer than 100 employees. All of these factors were consistent with the "Joy of Working" survey samples used in the past three years.

What Puts the "Joy" in Work?

There are many ways to look at job satisfaction. The *MN* survey analyzed the "Joy of Working" in 11 component parts. These naturally group together into five general areas of satisfaction:

A. Basic Job Enjoyment
- 1. Basic enjoyment of the job.
- 2. Plans to stay or leave.

B. Performance/Reward
- 3. The sense that your performance is rewarded.
- 4. Expectations for job advancement.
- 5. Satisfaction with your compensation package.

C. Company Pride
- 6. Pride in company—generally.
- 7. The sense of sharing in the company's success.

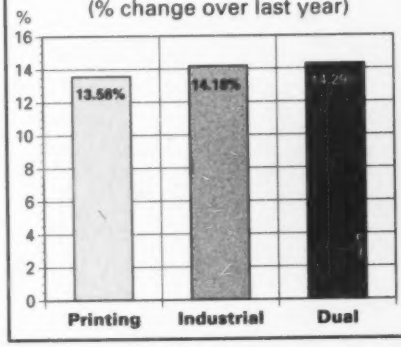
D. Perception of Supervision
- 8. The sense that expectations are known.
- 9. The sense that company information is being shared by supervisors.
- 10. The sense that teamwork is encouraged.
- 11. The sense that supervisors are approachable.

E. Overall Average of All Factors

Basic Enjoyment

Although all 11 factors individually hint at how much someone likes his or her job, when asked to rank how much they enjoy their jobs, 77% of those responding said they did. This is an increase from last year's ranking of 74. And if you're basically happy, you're probably not going to change jobs. Only one out of six people questioned said they were likely to take a new job in the next three years. This is down significantly from last year when nearly one out of four said they would probably be changing jobs.

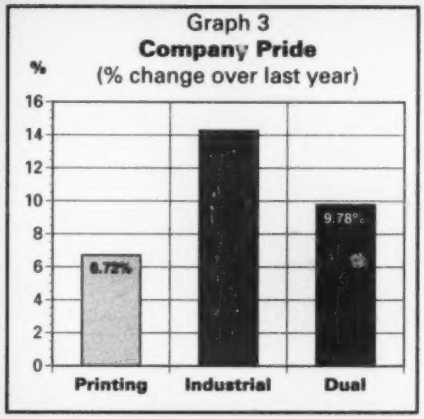
Graph 2
Performance/Reward
(% change over last year)

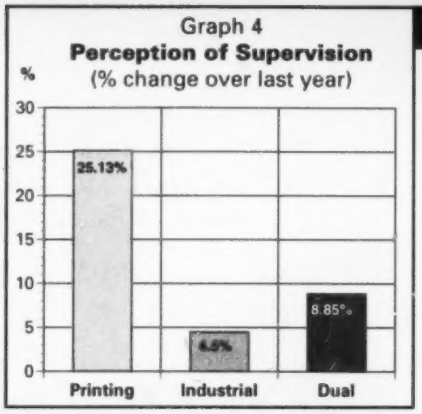


When all 11 factors are averaged for each of the past three years, the results are interesting (see Graph 1). You can see that the steady growth winners are those working for industrial paper and plastics distributors. Actually, all distributor groups came back strongly.

Performance and Reward

This year is quite different from last. In 1990, dual distributors showed a steep





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decline in their acceptance of compensation arrangements and their perceptions that their performance was being noticed and that job advancement was possible. This year, all groups felt much more secure, especially duals, in their performance-recognition-reward equation (see Graph 2).

Company Pride

Those surveyed were asked how proud they were of their companies and if they felt that they shared in their company's success. Last year, industrial was the only group showing increased pride. This year, all groups were up significantly (see Graph 3).

Perception of Supervision

The survey asked industry people to tell if their supervisors are approachable, if they share company information readily, if they encourage teamwork, and if they express clear expectations of their employees. Here again, only the industrial group showed improvement last year. But this year was different. All groups improved—with industrial showing the smallest increase (see Graph 4). The big winner was printing paper distribution employees. The management, evidently, really got its act together, and it was noticed by the employees.

Conclusion

Why are people more happy now than they were 12 months ago? Certainly, things in the industry have not gotten better! Companies have had to tighten their belts further.

The answer may be that in tight times people are happy to be working. In addition, companies may have been able to tell their people, "We're all in this together." In tough times, there is a greater feeling of camaraderie in the work environment.

What should not not be overlooked in all of this is the overall growth in how industrial paper and plastics employees feel about their companies. Over a three-year period, they had the greatest increase in satisfaction levels of any group.

What is the outlook for next year? Read the July 1992 issue of *MN* to find out. MN